

Washington State Auditor's Office
Audit Report

Sequim School District
Clallam County

Audit Period
September 1, 1995 through August 31, 1997

Report No. 59114

Issue Date
June 5, 1998



Washington _____
State Auditor

Brian Sonntag

Audit Summary

**Sequim School District
Clallam County
September 1, 1995 through August 31, 1997**

ABOUT THE AUDIT

This report contains the results of our independent audit of the Sequim School District for the two years September 1, 1995, through August 31, 1997.

Our work focused on determining whether the District complied with state laws and regulations and federal grant requirements. It included the audit of the financial statements and the internal controls established by District management. We also performed audit procedures on specific areas that have potential for abuse and misuse of public resources.

RESULTS

In the areas we examined, the Sequim School District complied with state laws and regulations and its own policies. In addition, the District adhered to requirements of federal financial assistance.

Table of Contents

Sequim School District Clallam County September 1, 1995 through August 31, 1997

Description of the District	1
Audit Areas Examined	2
Audit Overview	4
Independent Auditor's Report on Compliance with Laws and Regulations at the Financial Statement Level (Plus Additional State Compliance Requirements Per RCW 43.09.260)	5
Independent Auditor's Report on Internal Control Structure at the Financial Statement Level	7
Independent Auditor's Report on Supplementary Information Schedule of Federal Financial Assistance	9
Independent Auditor's Report on Compliance with the General Requirements Applicable to Federal Financial Assistance Programs	10
Independent Auditor's Report on Compliance with Specific Requirements Applicable to Nonmajor Federal Financial Assistance Program Transactions	12
Independent Auditor's Report on Internal Control Structure used in Administering Federal Financial Assistance Programs	13
Independent Auditor's Report On Financial Statements	16
Financial Statements	17

Description of the District

Sequim School District Clallam County September 1, 1995 through August 31, 1997

DESCRIPTION OF THE DISTRICT

Sequim School District is located on the Olympic Peninsula. The District operates under the laws of the state of Washington for the purpose of providing public education for students in grades K-12. The District's operations are vested in a Board of Directors. The Board has five members who are elected by the District. The Board appoints a Superintendent to manage District operations. The District's annual budget for fiscal 1996 and 1997 was \$16.1 million and \$27.1 million, respectively. The District passed a \$25 million construction bond in 1996. The District serves 2,700 students and has 275 employees.

ELECTED OFFICIALS

The following officials served during the audit period:

Board of Directors:
President

June Robinson
Dave Blake
Trish Gaine
Dean Holdsworth
Jan Hardin

APPOINTED

Superintendent

Dr. Lew Moormann

MAILING ADDRESS

District

503 N Sequim Avenue
Sequim WA 98382

Audit Areas Examined

Sequim School District Clallam County September 1, 1995 through August 31, 1997

In keeping with general auditing practices, we do not examine every portion of an entity's financial activities during each audit. The areas examined during an audit are determined by evaluating those which have the highest risk of loss to the entity as well as other factors. Certain areas are reviewed on a rotating basis over the course of several years. The following represents the areas of District operations examined in this audit period:

FINANCIAL AREAS

In auditing the Sequim School District's financial statements, we reviewed the following areas:

- Overall presentation of financial statements
- Cash and investments
- Accounts receivable
- Taxes receivable
- Long-term debt
- Revenue such as state apportionment, grants taxes and locally generated
- Expenditures including claims and payroll costs, capital construction and vendor payments
- Accounts payable

LEGAL COMPLIANCE

We audited the following areas for compliance with state and local laws and regulations:

- Open Public Meeting Act
- Budget development and compliance
- Statutory debt limit
- Long-term debt covenants
- Ethics/conflict of interest
- Insurance and bonding
- Competitive bidding
- Contract terms and conditions
- Staff mix
- Enrollment
- Transportation
- ASB operations

INTERNAL CONTROL CATEGORIES

We examined the following categories of the District's internal control structure:

- Cash receipting
- Billings and receivables
- Disbursements/warrants
- Purchasing
- Payroll
- Reporting
- Electronic data process
- Accounts payable

FEDERAL PROGRAMS

The audit of the federal grants adhered to the Single Audit Act of 1984. We audited the District's compliance with the following requirements of federally-funded programs:

- Political activity prohibition
- Davis-Bacon Act requirements for paying the prevailing wage rates on contracts
- Cash management
- Federal reporting requirements
- Spending grant funds only for allowable costs
- Matching/level of effort
- Eligibility of recipients

Audit Overview

Sequim School District Clallam County September 1, 1995 through August 31, 1997

AUDIT HISTORY

We had audited the Sequim School District annually in the past, however, for the current audit they went to a two year cycle. In the last five years the District has had no findings.

District management has taken steps in the past to make improvements and correct any areas of concern noted in prior audits. We believe this reflects the District's commitment to maintain a strong financial system with sufficient internal controls.

CONCLUSIONS

In areas examined, we found the Sequim School District complied with state laws and regulations, its own policies and requirements of federal financial assistance. We also determined the District's financial statements were materially correct.

In particular, our testing showed the District complied with regulations that affect state funding to the District. This included student enrollment counts, certificated staff-mix records and transportation ridership counts.

Independent Auditor's Report on Compliance with Laws and Regulations at the Financial Statement Level (Plus Additional State Compliance Requirements Per RCW 43.09.260)

Sequim School District Clallam County September 1, 1995 through August 31, 1997

Board of Directors
Sequim School District
Sequim, Washington

We have audited the financial statements, as listed in the table of contents, of the Sequim School District, Clallam County, Washington, as of and for the fiscal years ended August 31, 1997 and 1996, and have issued our report thereon dated April 2, 1998.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to the Sequim School District is the responsibility of the District's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the District's compliance with certain provisions of laws, regulations, contracts, and grants.

We also performed additional tests of compliance with state laws and regulations as required by *Revised Code of Washington* (RCW) 43.09.260. This statute requires the State Auditor to inquire as to whether the District complied with the laws and the *Constitution of the State of Washington*, its own ordinances and orders, and the requirements of the State Auditor's Office. Our responsibility is to examine, on a test basis, evidence about the District's compliance with those requirements and to make a reasonable effort to identify any instances of misfeasance, malfeasance, or nonfeasance in office on the part of any public officer or employee and to report any such instance to the management of the District and to the Attorney General. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with these provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards*.

This report is intended for the information of management and the Board of Directors and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

BRIAN SONNTAG, CGFM
STATE AUDITOR

April 2, 1998

Independent Auditor's Report on Internal Control Structure at the Financial Statement Level

Sequim School District Clallam County September 1, 1995 through August 31, 1997

Board of Directors
Sequim School District
Sequim, Washington

We have audited the financial statements of the Sequim School District, Clallam County, Washington, as of and for the fiscal years ended August 31, 1997 and 1996, and have issued our report thereon dated April 2, 1998.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The management of the District is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the financial statements of the District, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We

noted no matters involving the internal control structure and its operations that we consider to be material weaknesses as defined above.

This report is intended for the information of management and the Board of Directors and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

BRIAN SONNTAG, CGFM
STATE AUDITOR

April 2, 1998

Independent Auditor's Report on Supplementary Information Schedule of Federal Financial Assistance

Sequim School District Clallam County September 1, 1995 through August 31, 1997

Board of Directors
Sequim School District
Sequim, Washington

We have audited the financial statements of the Sequim School District, Clallam County, Washington, as of and for the fiscal years ended August 31, 1997 and 1996, and have issued our report thereon dated April 2, 1998. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was made for the purpose of forming an opinion on the financial statements of the Sequim School District taken as a whole. The accompanying Schedules of Federal Financial Assistance are presented for purposes of additional analysis and are not a required part of the financial statements. The information in the schedules has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

BRIAN SONNTAG, CGFM
STATE AUDITOR

April 2, 1998

Independent Auditor's Report on Compliance with the General Requirements Applicable to Federal Financial Assistance Programs

Sequim School District Clallam County September 1, 1995 through August 31, 1997

Board of Directors
Sequim School District
Sequim, Washington

We have audited the financial statements of the Sequim School District, Clallam County, Washington, as of and for the fiscal years ended August 31, 1997 and 1996, and have issued our report thereon dated April 2, 1998.

We have applied procedures to test the District's compliance with the following requirements applicable to its federal financial assistance programs, which are identified in the Schedules of Federal Financial Assistance, for the fiscal years ended August 31, 1997 and 1996:

- Political activity
- Civil rights
- Cash management
- Federal financial reports
- Allowable costs/cost principles
- Drug-Free Workplace Act
- Administrative requirements

The following requirements were determined to be not applicable to its federal financial assistance programs:

- Davis-Bacon Act
- Relocation assistance and real property acquisition
- Subrecipient monitoring

Our procedures were limited to the applicable procedures described in the Office of Management and Budget's (OMB) *Compliance Supplement for Single Audits of State and Local Governments* or alternative procedures. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the District's compliance with the requirements listed in the preceding paragraph. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the second paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that the District had not complied, in all material respects, with those requirements.

This report is intended for the information of management and the Board of Directors and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

BRIAN SONNTAG, CGFM
STATE AUDITOR

April 2, 1998

Independent Auditor's Report on Compliance with Specific Requirements Applicable to Nonmajor Federal Financial Assistance Program Transactions

Sequim School District Clallam County September 1, 1995 through August 31, 1997

Board of Directors
Sequim School District
Sequim, Washington

We have audited the financial statements of the Sequim School District, Clallam County, Washington, as of and for the fiscal years ended August 31, 1997 and 1996, and have issued our report thereon dated April 2, 1998.

In connection with our audit of the financial statements of the District and with our consideration of the District's control structure used to administer its federal financial assistance programs, as required by OMB Circular A-128, *Audits of State and Local Governments*, we selected certain transactions applicable to certain nonmajor federal financial assistance programs for the fiscal years ended August 31, 1997 and 1996. As required by OMB Circular A-128, we have performed auditing procedures to test compliance with the requirements governing allowability of the program expenditures and eligibility of the individuals or groups to whom the District provides federal financial assistance that are applicable to those transactions. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the District's compliance with these requirements. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the preceding paragraph. With respect to the items not tested, nothing came to our attention that caused us to believe that the Sequim School District had not complied, in all material respects, with those requirements.

This report is intended for the information of management and the Board of Directors and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

BRIAN SONNTAG, CGFM
STATE AUDITOR

April 2, 1998

Independent Auditor's Report on Internal Control Structure used in Administering Federal Financial Assistance Programs

Sequim School District Clallam County September 1, 1995 through August 31, 1997

Board of Directors
Sequim School District
Sequim, Washington

We have audited the financial statements of the Sequim School District, Clallam County, Washington, as of and for the fiscal years ended August 31, 1997 and 1996, and have issued our report thereon dated April 2, 1998.

We conducted our audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States, and the provisions of OMB Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In planning and performing our audit, we considered the District's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and to report on the internal control structure in accordance with OMB Circular A-128. This report addresses our consideration of internal control structure policies and procedures relevant to compliance with requirements applicable to federal financial assistance programs. We have addressed internal control structure policies and procedures relevant to our audit of the financial statements in a separate report dated April 2, 1998.

The management of the District is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that:

- Assets are safeguarded against loss from unauthorized use or disposition.
- Transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.
- Federal financial assistance programs are managed in compliance with applicable laws and regulations.

Because of inherent limitations in any internal control structure, errors, irregularities, or instances of noncompliance may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures used in administering federal financial assistance programs in the following categories:

- **Accounting Controls**
 - Cash receipts
 - Receivables
 - Accounts payable
 - Purchasing and receiving
 - Payroll
 - Inventory control
 - General ledger
- **General Requirements**
 - Political activity
 - Civil rights
 - Cash management
 - Federal financial reports
 - Allowable costs/cost principles
 - Drug-Free Workplace Act
 - Administrative requirements
- **Specific Requirements**
 - Types of services
 - Eligibility
 - Matching, level of effort, earmarking
 - Special requirements
- **Claims For Advances And Reimbursements**

For all of the applicable internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and determined whether they have been placed in operation, and we assessed control risk.

The following internal control structure categories were determined to be insignificant to federal financial assistance programs:

- **Accounting Controls**
 - Cash disbursements
 - Property, plant, and equipment
- **General Requirements**
 - Davis-Bacon Act
 - Relocation assistance and real property acquisition
 - Subrecipient monitoring
- **Specific Requirements**
 - Reporting
- **Amounts Claimed Or Used For Matching**

During the years ended August 31, 1997 and 1996, the District had no major federal financial assistance programs and expended 51 percent of its total federal financial assistance under the following nonmajor federal financial assistance programs: Special Education Funds (CFDA 84.027), Federal Forest Funds (CFDA 10.665), and Food Service Funds (CFDA 10.555).

We performed tests of controls, as required by OMB Circular A-128, to evaluate the effectiveness of the design and operation of internal control structure policies and procedures that we considered relevant to preventing or detecting material noncompliance with specific requirements, general requirements, and requirements governing claims for advances and reimbursements, and amounts claimed or used for matching that are applicable to the aforementioned nonmajor programs. Our procedures were less in scope than would be

necessary to render an opinion on these internal control structures policies and procedures. Accordingly, we do not express such an opinion.

Our consideration of the internal control structure policies and procedures used in administering federal financial assistance would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that noncompliance with laws and regulations that would be material to a federal financial assistance program may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses, as defined above.

This report is intended for the information of management and the Board of Directors and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

BRIAN SONNTAG, CGFM
STATE AUDITOR

April 2, 1998

Independent Auditor's Report On Financial Statements

Sequim School District Clallam County September 1, 1995 through August 31, 1997

Board of Directors
Sequim School District
Sequim, Washington

We have audited the accompanying financial statements of The Sequim School District, Clallam County, Washington, as of and for the fiscal years ended August 31, 1997 and 1996. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The financial statements referred to above do not include the general fixed asset account group, which should be included in order to conform with generally accepted accounting principles. The amount that should be recorded in the general fixed assets account group is not known.

In our opinion, except for the effect on the financial statements of the omission described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of The Sequim School District as of August 31, 1997 and 1996, and the results of operations for the fiscal years then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated April 2, 1998, on our consideration of the District's internal control structure and a report dated April 2, 1998, on its compliance laws and regulations.

BRIAN SONNTAG, CGFM
STATE AUDITOR

April 2, 1998

Financial Statements

**Sequim School District
Clallam County
September 1, 1995 through August 31, 1997**

Financial Statements

Combined Balance Sheet - All Fund Types and Account Groups - 1997
Combined Balance Sheet - All Fund Types and Account Groups - 1996
Combined Statement of Revenues, Expenditures, and Changes in Fund Balance - All Governmental
Fund Types and Expendable Trust Fund - 1997
Combined Statement of Revenues, Expenditures, and Changes in Fund Balance -All Governmental
Fund Types and Expendable Trust Fund - 1996
Combined Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual -
All Governmental Fund Types - 1997
Combined Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual -
All Governmental Fund Types - 1996
Notes to Financial Statements - 1997 and 1996

Additional Information

Schedule of Federal Financial Assistance - 1997
Schedule of Federal Financial Assistance - 1996
Notes to Schedule of Federal Financial Assistance - 1997 and 1996